

Message Text

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ACTION AF-10

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FM AMEMBASSY ADDIS ABABA

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C O R R E C T E D C O P Y (TEXT)

E.O. 11652: N/A

TAGS: EINV, ET

SUBJ: STERLING DRUG - COMPENSATION ISSUE

REF: A) 77 ADDIS ABABA 6797; B) ADDIS ABABA 3552

SUMMARY: CONVERSATION WITH STERLING'S LOCAL MANAGER REVEALED THAT FIRM IS NOT OVERLY CONCERNED WITH COMPENSATION CLAIM BECAUSE ITS ETHIOPIAN OPERATIONS CONTINUE TO BE PROFITABLE FOR THE FIRM; IT HAS BEEN ASSURED THAT ITS CLAIM WOULD BE AMONG THE FIRST TO BE SETTLED; AND IT HOPES EVENTUALLY TO REVITALIZE ITS MANUFACTURING OPERATIONS IN ETHIOPIA. LOCAL MANAGER APPRECIATED IMPORTANCE TO US-ETHIOPIAN RELATIONS OF SOME MOVEMENT ON COMPENSATION ISSUE AND IS REQUESTING APPROVAL TO APPROACH COMPENSATION COMMISSION TO DISCUSS MATTER. END SUMMARY.

1. MR CHERU W. MICHAEL, GENERAL MANAGER OF STERLING IN ETHIOPIA, REPEATED INFO REFTEL A TO EFFECT THAT AT LAST MEETING WITH THE COMPENSATION COMMISSION, STERLING WAS TOLD THAT THEIRS WAS A STRAIGHT FORWARD, WELL DOCUMENTED AND UNCOMPLICATED CLAIM WHICH WOULD BE AMONG THE FIRST TO BE
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SETTLED. AT THE SAME TIME, THEY WERE TOLD THAT THEY WOULD BE CONTACTED WHEN SETTLEMENT ACTUALLY WAS TO BE EFFECTED, WHICH WOULD PROBABLY NOT OCCUR UNTIL AFTER THE WAR PROBLEMS WERE RESOLVED. STERLING HAS HAD NO CONTACT WITH THE COMPENSATION COMMISSION SINCE THAT DATE (12/9/77).

2. ACCORDING TO CHERU, STERLING IS RELATIVELY SATISFIED WITH

THEIR ONGOING IMPORTATION/DISTRIBUTION OPERATION IN ETHIOPIA. ALTHOUGH PROFITS SHOWN BY THE ETHIOPIAN SUBSIDIARY ARE MARGINAL, CHERU INTIMATED THAT THE PROFITS MADE BY STERLING'S NAIROBI SUBSIDIARY ON EXPORTS TO STERLING (ETHIOPIA) ARE MORE SUBSTANTIAL. HE ALSO BELIEVES THAT THE COMPANY WOULD JUMP AT THE OPPORTUNITY TO REVITALIZE THEIR MANUFACTURING PROGRAM FOR ETHIOPIA.

3. EMBASSY OFFICER EXPLAINED TO CHERU IMPORTANCE OF EARLY MOVEMENT ON COMPENSATION ISSUE AND ASKED IF HE WOULD CONSIDER APPROACHING THE COMPENSATION COMMISSION TO DETERMINE THE STATUS OF STERLING'S CLAIM. CHERU INITIALLY EXPRESSED RELUCTANCE TO DO SO, IN THE BELIEF THAT IT MIGHT JEOPARDIZE THEIR PRESENT OPERATIONS IN ETHIOPIA. EVENTUALLY HOWEVER, CHERU WAS CONVINCED THAT IT WOULD DO NO HARM AND MIGHT EVEN PROVE USEFUL TO THE COMPANY. HE ALSO WAS CONVINCED OF THE IMPORTANCE TO OVERALL US-ETHIOPIA RELATIONS THAT SOME MOVEMENT TAKE PLACE ON THE COMPENSATION ISSUE. HE PROMISED TO CONTACT MR D.K. MUNN, STERLING'S REGIONAL ADMINISTRATOR IN NAIROBI, TO REQUEST APPROVAL FOR FURTHER CONTACT WITH THE COMMISSION AND TO ASK THAT MUNN COME TO ADDIS AT AN EARLY OPPORTUNITY TO DISCUSS THE COMPENSATION ISSUE WITH THE EMBASSY.

4. THE MANUFACTURING FACILITY ESTABLISHED BUT NEVER OPERATED BY STERLING IS CURRENTLY OPERATED BY EPHARM, A PARASTATAL ORGANIZATION. IT IS FOR THESE FACILITIES THAT STERLING LIMITED OFFICIAL USE

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SEEKS COMPENSATION.

5. THE IMPORTATION/DISTRIBUTION OPERATION OF STERLING HAS CONTINUED TO REMAIN 100 PER CENT UNDER STERLING'S CONTROL AND IS EXPANDING. SALES IN 1977 WERE SOME ONE MILLION BIRR (US\$500,000), AGAINST OPERATING EXPENSES OF ALMOST 160,000 BIRR (US\$80,000). WITH THE ALLOWED MARKUP ON PHARMACEUTICAL CURRENTLY AT 20 PER CENT, LOCAL PROFITS ARE CONSIDERED MARGINAL. (AS STATED ABOVE, HOWEVER, THE INTER-COMPANY TRANSACTIONS BETWEEN ADDIS ABABA AND NAIROBI APPARENTLY AFFORD STERLING WITH AN OPPORTUNITY TO ACCRUE OVERALL SUBSTANTIAL PROFITS FROM ITS ETHIOPIAN TIE.) 1978 SALES ARE EXPECTED TO INCREASE BY NEARLY 40 PER CENT.

6. IMPORTS OF PHARMACEUTICALS HAVE BEEN VIRTUALLY WITHOUT RESTRICTION. ABOUT 60 PER CENT OF ALL STERLING IMPORTS ARE FROM A STERLING MANUFACTURING FACILITY IN NAIROBI, 30 PER CENT FROM THE UK AND A SMALL QUANTITY OF PRODUCTS IS IMPORTED FROM THE US. ALL IMPORTS FROM NAIROBI AND THE UK ARE BY AIR; SOME OF THE IMPORTS FROM THE US ARE BY SEA. STERLING'S INVENTORY IN ADDIS ABABA IS MAINTAINED AT THE 300,000 BIR (US\$150,000) LEVEL.

7. PHARMACO, THE PARASTATAL AGENCY IN OVERALL CHARGE OF THE PHARMACEUTICAL INDUSTRY (INCLUDING EPHARM), IS CURRENTLY IMPORTING PHARMACEUTICAL PRODUCTS IN COMPETITION WITH STERLING, BAYER AND OTHER FOREIGN OWNED FIRMS STILL OPERATING IN ETHIOPIA. CHERU EXPECT THAT PHARMACO EVENTUALLY WILL TAKE OVER THE IMPORTATION AND DISTRIBUTION OF ALL PHARMACEUTICAL ITEMS AND PUT THESE FOREIGN FIRMS OUT OF BUSINESS. HE DOESN'T EXPECT THIS TO OCCUR, HOWEVER, FOR ANOTHER TWO YEARS OR MORE.

8. COMMENT: STERLING HAS NOT BEEN OVERLY CONCERNED WITH ITS COMPENSATION CLAIM AGAINST THE PMGSE, PROBABLY FOR THREE REASONS: 1) IT HAS BEEN TOLD IT WOULD BE AMONG THE FIRST LIMITED OFFICIAL USE

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TO RECEIVE COMPENSATION, 2) IT APPARENTLY IS MAKING A GOOD PROFIT ON SALES TO ITS ETHIOPIAN SUBSIDIARY BY ITS MAIROBI FACILITY, AND 3) IT HOPES EVENTUALLY TO REVITALIZE ITS MANUFACTURING OPERATION IN ETHIOPIA.
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